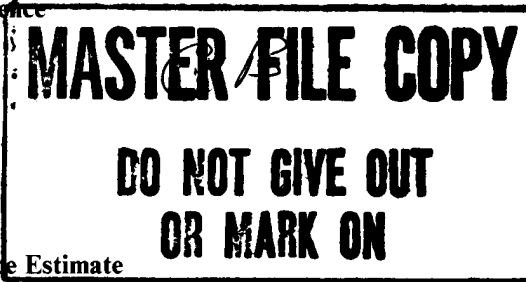


Director of Central Intelligence



Special National Intelligence Estimate



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China's Second Revolution

Key Judgments

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NIE 13-786W
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SCOPE NOTE

Chinese leader Deng Xiaoping in March 1985 characterized the reforms conducted since the Third Plenum of the 11th Central Committee in December 1978 as a "second revolution," which "is an unprecedented thing in China's history of thousands of years." These reforms involve fundamental political, economic, and social changes, probably the most comprehensive and systematic ever undertaken by a Communist regime. This Estimate considers what the second revolution is, how it is affecting Chinese institutions and society, and how it is likely to develop over the next 10 years. It also considers various courses these reforms might take and how they are likely to affect US interests.

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KEY JUDGMENTS

China's far-reaching reform effort—unprecedented in Communist experience—has already achieved certain notable successes and is likely to so continue, albeit at a somewhat reduced pace, over the next decade. This means that in the broader overall context China's power and influence will grow, a prospect that will offer both significant new long-term opportunities and challenges for the United States. [REDACTED]

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The principal goals of the reform movement—which in their totality clearly constitute a “second Chinese revolution”—are:

- *To restructure, reorient, and rejuvenate the political leadership.* This entails reorganizing and reforming the party; separating party and state functions; revamping ideology along more pragmatic lines; establishing stronger legal and institutional structures; and bringing younger, better educated, and more qualified personnel into positions of responsibility.
- *To expand the economy.* This entails narrowing the scope of central planning and gradually allowing market forces to determine more economic activity; improving efficiency, productivity, and quality in production; raising the standard of living; developing more effective financial institutions; gradually eliminating government involvement; promoting development of a relatively unregulated tertiary sector; opening China's economy to foreign participation; and giving priority to existing industrial bases.
- *To fashion a leaner, more professional military establishment.* This entails establishing a younger and more educated officer corps; reducing the overall size of the armed forces; constricting the role of the military in the economy and in politics; reorganizing military regions and commands; and acquiring and deploying improved weapons and equipment from domestic and foreign sources.
- *To create a society less constrained by political and social controls.*
- *To expand ties to the outside world* that will assure China breathing space that will enable it to concentrate on its ambitious efforts to modernize and provide access to economic, scientific, and technical support. [REDACTED]

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In seeking these ends, *there will be significant constraints* that will fashion, slow, and under certain circumstances, possibly halt certain of the reform efforts for a time:

- *Deng Xiaoping and his supporters face the extremely difficult task of loosening certain controls*—in order to stimulate the receptivity, creativity, and flexibility necessary to achieve the goals of reform—*without, in the process, losing their own monopoly of power*. This basic contradiction may prove to be *the* single most vexing problem these leaders will confront, inasmuch as they believe they can establish far-reaching economic reform and yet maintain the leadership of the Party and the Marxist-Leninist character of the society.
- *Sharp differences exist among the leadership on some issues of the scope and pace of reform*. While we believe that the broad thrust of reform will continue, the implementation of various policies will be highly uneven, owing to these internal difficulties:
 - Traditional endemic systems of *guanxi* (personal relationship) networks, favoritism for relatives, going through the “back door” and other traditional methods of doing business will not speedily be abolished, if at all.
 - Senior officials who fear that retirement will bring loss of power, prestige, and perks will continue to resist some elements of reform.
 - Concerns will abide, especially among lower ranking cadres, that the reforms will not endure.
 - There will also be concerns that the rapid opening to the West will allow “unhealthy influences” to enter China and will also make it too dependent on foreign countries.
- *A myriad of technical, financial, and managerial obstacles will impede the ability of China, a huge, still backward LDC, to meet its reform goals*. Some of these problems are not wholly within China’s own ability to control and are crucially important infrastructure gaps in energy and transportation.
- Finally, the effort to modernize will create *disruptive economic and social problems* such as inflation, corruption, income disparities, regional inequalities, and occasional outbursts of social discontent.

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How the party approaches these issues, and the particular scope, character, and pace of reforms over the next few years, will be

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influenced significantly by how well the succession to Deng takes place. We now believe that the mechanisms are in place for a fairly orderly succession, and that the leadership that follows Deng, for the most part, will share the goals and priorities he has set. These successors will be prepared where necessary to adjust the pace of reforms, from time to time, when faced by marked political hesitance and economic/technical constraint. []

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The maintenance of reforms will also be affected significantly by external forces. China's ambitious revolution will not be taking place in a vacuum but in a broad context of interacting outside pressures on China: most notably from the USSR, the United States, and Japan. In this setting we believe that the Chinese will continue to perceive that they are not imminently threatened by the Soviet Union and will have time to concentrate resources on economic modernization. China will, meanwhile, continue to value its economic ties to the West and Japan and will continue to push strongly for infusions of foreign technology and investment. []

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Despite the many hazards that will confront China's modernization effort, *we believe the most likely outcome over the next decade will be a general continuation of reform and an uneven but gradual growth of China's economic strength, stability, and power.* This means that, in broad terms:

- The reforms will for the most part bring reasonable prosperity and will give most of the populace a stake in the continuation of reform.
- An avowedly centrally planned economy will attempt to make increasing use of both market forces and political intervention and will encourage flexibility and competition within certain carefully prescribed sectors.
- The economy and the society will in many respects be opened up still more than at present but without the party losing its pre-eminence and control or the society losing its distinctively Chinese Communist character.
- The pace of reform will be uneven, progress will be start and stop, there will be incessant disputes over priorities and scope, and leadership shifts will occur as various members of the second generation attempt to strengthen their respective power and authority. *But*, we believe such developments will not lead to major turmoil, as occurred during the Cultural Revolution, and will be more or less confined to the type of political struggle we have witnessed over the last eight years or so.

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- China will develop an extensive web of interlocking trade, technological, and financial relationships with other countries—mainly Western countries and Japan—but this will include markedly expanded ties to the USSR.
- China will conduct a foreign policy that is more activist, including competing more assertively with newly industrialized countries to sell to foreign markets, maintaining an aggressive policy of arms sales abroad, and playing one country off against another in order to obtain the best possible terms for foreign markets and investments. Beijing's foreign policies will nonetheless seek above all to avoid such external conflicts as might interfere seriously with China's primary focus on modernization.

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Should this "most likely" projection prevail, with China's modernization effort meeting modest success, the significance for the United States will be profound. Among the principal consequences:

- The growth of Chinese power will be gradually accompanied by a corresponding expansion of Chinese regional and global interests. China will feel more confident and capable of promoting its interests in the strategic triangle and probably will genuinely move toward its avowed objective of an "independent" foreign policy.
- China will continue, and perhaps escalate, its pressure on the United States to reduce arms sales to Taiwan, and will increasingly pressure the United States to convince Taiwan to accept Beijing's terms for national reconciliation.
- There will be continuing opportunities for US trade and investment, as China will want to continue its favorable economic and other ties to the United States and other Western countries. How willing Beijing will be to continue to mute some of its more nationalistic goals—such as recovery of Taiwan—to achieve these benefits, as it has in the past, is uncertain.
- There will also be some opportunities for a limited expansion of US military cooperation with China, primarily in the regularization of exchanges at various levels. However, China will not wish to rapidly expand military hardware acquisitions from the United States.
- The gradual growth of Chinese power and influence will complicate US relations with other countries in East Asia. Some countries will increasingly try to persuade the United States to place restraints on its assistance to Chinese military modernization.

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— China will continue to be wary of the Soviet strategic threat and of Soviet intentions, but will likely be increasingly willing to engage in various forms of economic and other exchange with the USSR; China may also eventually be willing to restore party ties. However, these improved economic and political ties will not lead to Chinese cooperation with the Soviets against the United States, because the United States and the West will remain more important than the Soviets as a source of technology, investment, and other economic advantages. []

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Though less likely than the projection posited above, another plausible scenario is one in which the technical and political problems we have noted gradually overwhelm the reforms. Such an outcome would be one stopping short of total collapse or total failure of reform, but one most likely to result in a permanent recentralization of authority and a tightening of economic controls. A more centralized and repressive regime probably would not be able to resolve China's economic problems, and popular support would dwindle over time. This alternative is also likely to be accompanied by an upsurge in Chinese nationalism. The Chinese probably would blame the developed countries for their problems, but are also most likely to be suspicious and hostile toward the USSR. China probably would escalate rhetoric identifying with various Third World causes and might allow territorial problems with its neighbors to become more serious. We believe, however, that the political unrest and nationalistic excesses on the scale of the Cultural Revolution would be unlikely. []

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If this scenario were to unfold, there would be greater challenges for the United States since China probably would become even more stubborn in asserting its regional demands. The Hong Kong settlement could unravel, causing the Taiwan issue to become more difficult. There would likely be setbacks across the board in economic, scientific and technical, and cultural cooperation, though we do not believe these would be abandoned altogether. Suspicion and hostility toward China by Japan and Southeast Asian countries could increase, and these countries would likely put greater pressure on the United States to avoid policies that had the appearance of strengthening China. Some Chinese leaders might want to further reduce tension with the Soviet Union and perhaps even develop closer ties to replace links to the West, but others would continue to resist, harboring lingering suspicions of Soviet intentions. []

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As for other alternative futures, we believe that there is almost no likelihood that either a dramatically more rosy or a dramatically more pessimistic scenario for China will prevail. For China to succeed in its reforms well beyond our projections, it would require fundamental

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changes in the political, economic, and social system that are not in the cards during the period of this Estimate. Likewise, we believe that the party and people would not countenance a new "Cultural Revolution," even if the reforms failed miserably. Even if either possibility occurred, the forces that would produce such a change would be so cataclysmic as to preclude an effective estimate of how US interests might be affected. It is safe to say, however, that either a much more powerful China, or one that is wracked by turmoil, would pose greater albeit different challenges to the United States and would not be in our interest.

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